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IN THE

Supreme Court of the United States

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Petitioner,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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162 pp

QUESTIONS PRESENTED

1. Does the requirement imposed by the Second Circuit—that a trademark owner needs to prove bad faith infringement in order to obtain an accounting of the infringer's profits—comply with the language and legislative history of Section 35(a) of the Lanham Act or this Court's precedents decided under the Trademark Act of 1905?

2. Is it equitable that the infringing party is permitted to retain the millions of dollars generated by post-litigation sales of infringing garments because a temporary restraining order did not issue and, due to the vagaries of its docket and the delay caused by defendant's motion for summary judgment, the district court did not enter a permanent injunction for more than a year following commencement of this action?

3. In the absence of a finding of bad faith, is a case where a multinational company with annual sales of $227 million intentionally copies the 70-year old trademark of a not-for-profit organization and, after being sued, continues to sell off millions of dollars worth of infringing merchandise "exceptional" allowing for the recovery of reasonable attorney fees under Section 35(a)?

PARTIES TO THE PROCEEDING

The parties to this proceeding are:

1. Petitioner International Star Class Yacht Racing Association*
2. Respondent Tommy Hilfiger U.S.A., Inc.

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* Petitioner International Star Class Yacht Racing Association is not a publicly-held company and it has no corporate parents, subsidiaries or affiliates which are publicly held.

TABLE OF CONTENTS

	PAGE
QUESTIONS PRESENTED	i
PARTIES TO THE PROCEEDING	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	2
JURISDICTION	2
STATEMENT OF THE CASE	2
The Parties	3
Background	4
Proceedings in the District Court	5
Three Appeals to the Second Circuit	6
REASONS FOR GRANTING THE WRIT	7
I THIS COURT SHOULD RESOLVE A 30-YEAR OLD SPLIT IN THE CIRCUITS CONCERNING THE AVAILABILITY OF MONETARY RELIEF FOR TRADEMARK INFRINGEMENT	7

PAGE

II THIS COURT SHOULD REVERSE THE DECISIONS OF THE LOWER COURTS DENYING THE ASSOCIATION AN ACCOUNTING OF HILFIGER'S PROFITS.. 11

A. The Decision Of The Second Circuit Is Contrary To The Plain Language Of Section 35(a) 11

B. The Second Circuit's Decision Is Also Contrary To The Legislative History Of Section 35(a) 13

C. The Rule Applied By The Court Of Appeals Is Based On A Misinterpretation of This Court's Decision In *Champion Spark Plug Co. v. Sanders* 16

D. Principles Of Equity Dictate That Hilfiger Should Not Be Entitled To Retain The Economic Benefit 17

III THE COURTS BELOW MISINTERPRETED THE LANHAM ACT WHEN THEY FAILED TO AWARD THE ASSOCIATION ITS REASONABLE ATTORNEY FEES 21

CONCLUSION 24

TABLE OF AUTHORITIES

Cases	PAGE
Adray v. Adry-Mart, Inc. 76 F .3d 984 (9th Cir. 1995)	10
ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958 (D.C. Cir. 1990)	8
Bishop v. Equinox Int'l Corp., 154 F.3d 1220 (10th Cir. 1998)	8
Burger King Corp. v. Mason, 855 F.2d 779 (11th Cir. 1988)	8
Caminetti v. United States, 242 U.S. 470 (1917)	12
Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 433 F.2d 686 (2d Cir. 1970)	8
Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947)	16, 17
Chanel, Inc. v. Italian Activewear of Fla., Inc., 931 F.2d 1472 (11th Cir. 1991)	8
Conopco, Inc. v. Campbell Soup Co., 95 F.3d 187 (2d Cir. 1996)	21
Everest & Jennings, Inc. v. E & J Mfg. Co., 263 F.2d 254 (9th Cir. 1958)	10
Frisch's Rests., Inc. v. Elby's Big Boy, 849 F.2d 1012 (6th Cir. 1988)	8
George Basch Co. v. Blue Coral, Inc., 968 F.2d 1532 (2d Cir. 1992)	8

PAGE

Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A., 530 U.S. ___, 120 S. Ct. 1942 (2000) 11

Immigration & Naturalization Serv. v. Cardoza-Fonseca, 480 U.S. 421 (1987) 14

Louis Vuitton S.A. v. Lee, 875 F.2d 584 (7th Cir. 1989) 8, 9

Nalpac, Ltd. v. Corning Glass Works, 784 F.2d 752 (6th Cir. 1986) 8

Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521 (D.C. Cir. 1985) 22

Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189 (1985) 11

Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526 (5th Cir. 1998) 9, 10

Polo Fashions, Inc. v. Dick Bruhn, Inc., 793 F.2d 1133 (9th Cir. 1986) 19, 20

Rolex Watch USA, Inc. v. Meece, 158 F.3d 816 (5th Cir. 1998) 10

Roulo v. Russ Berrie & Co., 886 F.2d 931 (7th Cir. 1989) 8, 9

Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947 (7th Cir. 1992) 9

SecuraComm Consulting Inc. v. Securacom Inc., 166 F.3d 182 (3d Cir. 1999) 8

PAGE

Statutes

15 U.S.C. § 1111 ..... 11n

15 U.S.C. § 1114 ..... 10n, 11n, 13

15 U.S.C. § 1117(a) ..... *passim*

15 U.S.C. § 1125(a) 6

28 U.S.C. § 1254(1) 2

FED. R. CIV. P. 65(c) 18

Legislative Documents

H.R. 9041, 75th Cong. (1938) 14

S. 2679, 68th Cong. (1924) 14

S. REP. NO. 93-1400 (1973), *reprinted in* 1974 U.S.C.C.A.N. 7132 21

Other Authorities

M.G. Del Monte, Recent Development, Texas Pig Stands, Inc. v. Hard Rock Cafe International: *Willful Infringement Won't Always Bring Home the Bacon*, 67 TULANE L. REV. 569 (1992) 21

Jerome Gilson, TRADEMARK PROTECTION AND PRACTICE (1999) 14

Eugene W. Luciani, Note, *Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L. 69 (1998) 12n, 15

PAGE

Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271 (1997) ..... *passim*

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

International Star Class Yacht Racing Association (the "Association" or "ISCYRA") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit, entered in this case on January 12, 2000, which affirmed the judgment of the United States District Court for the Southern District of New York granting a permanent injunction, but denying an accounting of profits and an award of reasonable attorney fees for trademark infringement.

OPINIONS BELOW

The most recent opinion of the court of appeals is unreported. *See* 205 F.3d 1323 (2d Cir. 2000) (table of unpublished dispositions). Two earlier opinions of the court of appeals in this action are reported at 80 F.3d 749 (2d Cir. 1996) and 146 F.3d 66 (2d Cir. 1998). The opinion of the district court granting a permanent injunction and denying monetary relief is reported at 1995 WL 241875 (S.D.N.Y. Apr. 26, 1995). An earlier opinion of the district court denying respondent's motion for summary judgment is reported at 33 U.S.P.Q.2d 1610 (S.D.N.Y. 1994). The opinions of the district court following the first remand are reported at 959 F. Supp. 2d 623 (S.D.N.Y. 1997) and 1997 WL 297031 (S.D.N.Y. Jun. 4, 1997). The opinion of the district court following the second remand is reported at 1999 WL 108739 (S.D.N.Y. Mar. 3, 1999). These opinions are reprinted in the appendix.

JURISDICTION

The judgment of the court of appeals affirming the judgment of the district court was entered on January 12, 2000. (1a-4a.)[1] A timely petition for rehearing *en banc* was denied on April 3, 2000. (5a-6a.) The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

Respondent Tommy Hilfiger U.S.A., Inc. ("Hilfiger"), infringed the Association's 70-year old common law trademark "STAR CLASS" by selling nautical clothing with the mark "Star ★ Class." (74a; *see* 68a (depicting Hilfiger's use of "Star ★ Class" mark).) Hilfiger marketed the clothes as "containing authentic details taken from the sport of

[1] References to the appendix are in the form "__a."

competitive sailing." (74a.) The district court issued a permanent injunction against Hilfiger's use of "Star Class" but denied the Association an accounting of Hilfiger's profits and an award of its attorney fees pursuant to Section 35(a) of the Lanham Act. (94a-96a.) The district court denied both of these requests because it found that the Association had failed to prove that Hilfiger had acted in bad faith. (95a-96a.) The court of appeals affirmed that decision based on the *Restatement (Third) of Unfair Competition* and that court's precedents. (26a-27a.)

The Parties

ISCYRA is a non-profit corporation founded in 1922 to govern and promote the sport of Star Class yacht racing. (23a.) Stars are sophisticated one-design racing craft sailed in high-profile regattas and championship series around the world, including the Olympics. (23a.) ISCYRA owns the rights to the design of these yachts and closely monitors the construction, certification and registration of each boat in the class. (23a; 72a.) The main sail of a Star bears the solid red five-pointed star which serves as ISCYRA's insignia or an honor award of a green, blue, silver or gold star signifying the winner of an ISCYRA championship regatta. (23a.) The red star is also used, along with the "STAR CLASS" trademark, on the yachting hats, clothing, flags, decals and pins sold by ISCYRA. (23a.) ISCYRA permits yacht clubs hosting its sanctioned regattas to use the insignia and its "STAR CLASS" trademark on promotional items, and has collected royalties for their use in jewelry and posters. (23a.)

Hilfiger is a successful designer and distributor of high quality men's clothing. (24a.) Its sales exceeded $227 Million in the year ending March 31, 1994. (24a; 74a.) The record below revealed that Hilfiger's founder, Tommy Hilfiger, is passionate about sailing; is the company's prin-

cipal designer; and leads and directs all aspects of the design process.

Background

One of Hilfiger's designers admitted that he copied "Star Class" from a coffee table book about racing. (10a, n. 1; 74a.) The district court thus found that Hilfiger intentionally copied the Association's "STAR CLASS" trademark. (28a.)

In intentionally copying "STAR CLASS", Hilfiger ignored its counsel's warnings about using this mark without further inquiry:

> At this point, we would not necessarily rule out your use and registration of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search.

(10a (underlined in original).) This advice was given to Hilfiger after the attorneys made a "knock out" search on Westlaw for federally registered trademarks only. (27a.) The court of appeals analyzed this conduct as follows:

> In light of Hilfiger's minimal efforts to ascertain whether "STAR CLASS" was, in fact, a trademark, we agree with ISCYRA that the district court clearly erred in finding Hilfiger guilty only of simple copying and not of intent to copy a mark. Given Hilfiger's awareness that it was copying "authentic details . . . from the sport of competitive sailing," it should have shown greater concern for the possibility that it was infringing on another's mark. Hilfiger's choice not to perform a full search under these circumstances reminds us of two of the famous trio of monkeys who, by covering their eyes and ears, neither saw nor heard any evil. Such willful ignorance should not provide a

means by which Hilfiger can evade its obligations under trademark law.

(28a.)

In March 1994, Hilfiger, through its retailers, began selling over $3 million worth of nautical clothing using the "Star ★ Class" mark without the Association's authorization. (24a.) Hilfiger employed a yachting motif, including the use of a detail in the shape of a burgee (a yachting flag usually denoting a yacht club) directly above the "Star ★ Class" mark. (74a; *see* 68a (depicting burgee detail and mark).) Hilfiger also marketed the garments as containing "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails." (24a.)

The day **after** it was sued by the ISCYRA and a month **after** the cease and desist letter, Hilfiger finally conducted the "full trademark search." (29a; 10a.) That search showed ISCYRA and its connection to yachts and yacht racing. (29a; 10a.) Despite the results of this search, Hilfiger "bet" on the outcome of this litigation and proceeded to sell off infringing garments after the commencement of this litigation. (29a.)

Proceedings in the District Court

When Hilfiger refused a demand to cease and desist selling the infringing merchandise, the Association commenced this action on April 13, 1994, for violation of Section 43(a) of the Lanham Act. (98a.) It simultaneously moved for a preliminary injunction and consolidation of the trial with the preliminary injunction hearing. (98a.) The district court established a period for accelerated discovery and set trial for June 6, 1994, which it later adjourned so Hilfiger could make a summary judgment motion. (98a.) On November 30, 1994, the district court rendered a decision denying Hilfiger's motion. (97a-121a.)

The bench trial took place on January 9-10, 1995. (71a.) No one from Hilfiger, including the people responsible for designing the infringing garments, took the witness stand during the trial. (24a; 74a.) On April 25, 1995, the district court found that Hilfiger had violated Section 43(a), 15 U.S.C. § 1125(a). (94a.) The court granted ISCYRA injunctive relief under Section 34, 15 U.S.C. § 1116, but denied ISCYRA any monetary recovery under Section 35(a), 15 U.S.C. § 1117(a), including its reasonable attorney fees. (94a-96a.)

Three Appeals to the Second Circuit

In *ISCYRA I*, the Second Circuit held that the district court made two clearly erroneous findings and that the analysis of Hilfiger's bad faith was incomplete. (25a.) It vacated the denial of an accounting of profits and attorney fees and remanded the case for reconsideration of the bad faith issue. (30a.) The court of appeals also held that "[i]n order to recover an accounting of an infringer's profits, a plaintiff must prove that the infringer acted in bad faith." (26a-27a.) In reaching this decision the court relied, not on the Lanham Act, but on the *Restatement (Third) of Unfair Competition* and Second Circuit precedents. (27a.)

On the second appeal, the court of appeals vacated the finding that Hilfiger had not acted in bad faith because the district court relied on facts from the trial of another action. (16a.)

The district court then rendered a decision again finding that Hilfiger did not act in bad faith when it adopted "STAR ★ CLASS" or when it sold off the remaining $1.1 million worth of infringing garments in its inventory after the complaint was filed. (32a-40a.)

The Association again appealed. On January 12, 2000, the court of appeals issued its Summary Order. (1a-4a.) The panel declined to reconsider the Second Circuit's

precedents requiring a showing of bad faith to recover monetary damages. (2a-3a.) It also affirmed the finding on bad faith noting "[a]lthough there is some evidence that points toward the existence of bad faith, we cannot say, after review of the record, that we are 'left with [the] definite and firm conviction that a mistake has been committed.' " (3a-4a.) The Association's timely petition for rehearing *en banc* was denied. (5a-6a.)

REASONS FOR GRANTING THE WRIT

I

THIS COURT SHOULD RESOLVE A 30-YEAR OLD SPLIT IN THE CIRCUITS CONCERNING THE AVAILABILITY OF MONETARY RELIEF FOR TRADEMARK INFRINGEMENT.

Currently, a trademark owner in some parts of this country is presumptively entitled to recover monetary relief—actual damages or an accounting of profits—for infringement, while in other parts of the country that trademark owner is required to prove that the infringer acted willfully or in bad faith. The circuits that have inserted a bad faith requirement into the Lanham Act have done so in contravention of the plain language of the statute, its legislative history and decisions of this Court under the predecessor trademark act. This split in the circuits has lasted for more than 30 years and affects the millions of dollars generated each year by the sale of infringing merchandise. *See* Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271, 277-78 & 299 n. 142 (1997) [hereinafter *Stolte*].

The Second Circuit is the main proponent of one side of the split. *See Stolte, supra*, at 277. It is joined by the Third,

Sixth, Tenth and D.C. Circuits. *See SecuraComm Consulting Inc. v. Securacom Inc.*,166 F.3d 182, 190 (3d Cir. 1999) ("plaintiff must prove that an infringer acted willfully before the infringer's profits are recoverable"); *Frisch's Rests., Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015 (6th Cir. 1988) ("For a court to order an accounting . . . , bad faith must be shown."); *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986); *Bishop v. Equinox Int'l Corp.*, 154 F.3d 1220, 1223 (10th Cir. 1998) ("we are mindful that an award of profits requires a showing that defendant's actions were willful or in bad faith"); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) ("award based on a defendant's profits requires proof that the defendant acted willfully or in bad faith"). Since 1970, the Second Circuit has read a bad faith element into Section 35(a) of the Lanham Act. *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 706-07 (2d Cir. 1970); *see also George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir. 1992) (to recover profits "plaintiff must prove that an infringer acted with willful deception").

The Seventh and Eleventh Circuits decline to follow the narrow reading of the "equitable principles" language of Section 35(a) of the Lanham Act. *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989) ("Other than general equitable considerations, there is no express requirement that the parties be in direct competition or that the infringer wilfully infringe the trade dress to justify an award of profits."); *Chanel, Inc. v. Italian Activewear of Fla., Inc.*, 931 F.2d 1472, 1476 (11th Cir. 1991) ("showing of intent or bad faith is unnecessary . . . to seek remedies pursuant to § 1117(a)"); *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988) ("award of profits based on either unjust enrichment or deterrence [is not] dependent upon a higher showing of culpability on the part of defen-

dant, who is purposely using the trademark"). These courts hold that an accounting of profits is warranted where the equities would require: (1) just compensation to the plaintiff, (2) a deterrence to the defendant from future infringing activities, and/or (3) avoidance of unfair enrichment to the defendant. *See Stolte, supra*, at 284; *see also Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 961 (7th Cir. 1992); *Roulo*, 886 F.2d at 941. Judge Richard A. Posner articulated the rationale supporting this line of cases best when he noted:

> the principles of equity referred to in section 1117(a) do not in our view justify withholding all monetary relief from the victim of a trademark infringement merely because the infringement was innocent. As between the "innocent" infringer who seeks to get off scot-free, and the innocent infringed who has [not] engaged in inequitable conduct . . . , the stronger equity is with the innocent infringed.

Louis Vuitton, 875 F.2d at 588-89. The Seventh Circuit has also held that "[t]he trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party." *Roulo*, 886 F.2d at 941.

The state of the law in the Fifth and Ninth Circuits can best be described as internally inconsistent. In *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998), the Fifth Circuit held:

> **While this court has not required a particular factor to be present**, relevant factors to the court's determination of whether an award of profits is appropriate include, but are not limited to, (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in mak-

> ing the misconduct unprofitable, and (6) whether it is a case of palming off.

Id. at 554 (emphasis added). The *Pebble Beach* case can be fairly read as supporting the proposition that an accounting can be awarded in the absence of bad faith infringement. In another 1998 decision, however, the Fifth Circuit held that "under § 1117(a), an award of profits **requires proof of willful or deliberate infringement**." *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816, 826 (5th Cir. 1998) (emphasis added). These two cases—decided five weeks apart—cannot be reconciled.

While the original bad faith case was a Ninth Circuit decision, *Everest & Jennings, Inc. v. E & J Mfg. Co.*, 263 F.2d 254, 262 (9th Cir. 1958),[2] current case law from that court applies the bad faith requirement only some of the time. *Adray v. Adry-Mart, Inc.* 76 F.3d 984, 988 (9th Cir. 1995). In *Adray*, the court of appeals held that willful infringement is not always a prerequisite to an award of profits, "as when plaintiff seeks the defendant's profits as a measure of his own damage." *Id.* (*citing Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1407-09 (9th Cir. 1993)). Thus, in that circuit, to obtain monetary relief a trademark owner must prove bad faith some times, but not others.

It is time for this Court to resolve the circuit split, eliminate the confusion and return the state of trademark law to that contemplated by Congress in 1946 when it passed the Lanham Act.

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[2] It should be noted that the holding in this case was based on a misapplication of the printers and publishers exception of Section 32, 15 U.S.C. § 1114. *See Everest & Jennings*, 263 F.2d at 262-63; *see also Stolte*, *supra*, at 287-89 (discussing this mistake by the Ninth Circuit).

II

THIS COURT SHOULD REVERSE THE DECISIONS OF THE LOWER COURTS DENYING THE ASSOCIATION AN ACCOUNTING OF HILFIGER'S PROFITS.

A. The Decision Of The Second Circuit Is Contrary To The Plain Language Of Section 35(a).

Section 35(a) of the Lanham Act provides:

> When . . . a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 [29] and 1114 [32] of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. . . .

15 U.S.C. § 1117(a).[3] As this Court can readily observe, the plain language of Section 35(a) states that the plaintiff "shall be entitled" to recover defendant's profits "subject to the principles of equity." Nowhere in this section did Congress require that a trademark owner prove bad faith infringement. (*See* 125a (containing complete text of Section 35(a)).) As this Court has held many times, when interpreting statutes courts are obligated to follow the plain language of the statute. *Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. ___, 120 S. Ct. 1942, 1947 (2000); *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985) (noting in Lanham Act case that "[s]tatutory construction must begin with the language

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[3] Neither section 29 nor 32 is applicable in this case. Section 29 relates to the use of ® for registered marks and section 32 relates to mere printers or publishers of infringing material. *See* 15 U.S.C. §§ 1111 & 1114 (reproduced in the appendix, 122a; 122a-125a).

employed by Congress and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose"); *Caminetti v. United States*, 242 U.S. 470, 485 (1917) ("meaning of a statute must, in the first instance, be sought in the language in which the act is framed, and if that is plain . . . . the sole function of the courts is to enforce it according to its terms"). The Second Circuit did not follow the plain language of Section 35(a) in this case.[4]

Other language in Section 35(a) also confirms that Congress did not intend to require proof of willful infringement or bad faith for an award of monetary relief. Congress included a provision that allows the court to adjust an award of profits upward or downward in order to achieve a just result. 15 U.S.C. § 1117(a) ("If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."). Finally, Congress concluded Section 35(a) with the statement that "[s]uch sum in either of the above circumstances shall constitute compensation and not a penalty." *Id.* This language of Section 35(a) does not support the proposition that willful or bad faith infringement is a prerequisite to recovery of such sums. Congress intended monetary recoveries awarded under Section 35(a) to compensate trademark owners when someone unlawfully uses their property, not to punish bad faith infringers. The last sentence of Section

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[4] One commentator, after conducting an economic analysis of the issue, concluded that "[t]he bad faith requirement does not seem to be a necessity to strike a balance between deterrence and overdeterrence; rather, it seems as if it is a judicial creation, without much guidance from the statute, based on a misguided sense of fairness." Eugene W. Luciani, Note, *Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L. 69, 117 (1998) [hereinafter *Luciani*].

35(a) would have been unnecessary if Congress intended the monetary relief to be available only in cases where the infringement was in bad faith or willful.

Moreover, Congress obviously knew how to include a scienter requirement in the trademark laws when it decided such a requirement was appropriate. *See* 15 U.S.C. § 1114 (Lanham Act, Section 32) (reproduced in the appendix, 122a-124a); *see also Stolte*, *supra*, at 293-94. Section 32 contains a safe harbor provision for innocent printers and publishers. A trademark owner can recover profits or damages from a printer or publisher only if "the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive." *Id.* § 1114(1). The fact that Section 32 expressly includes this requirement in cases against mere printers and publishers further demonstrates that Congress did not intend that trademark owners prove willful infringement in all cases in order to obtain monetary relief under Section 35(a). *See Stolte*, *supra*, at 293-94.

The Second Circuit's decision in this case, and in a line of cases dating to 1970, ignores the plain language of Section 35(a) and adds an element that Congress did not intend. It is the role of Congress, not the Second Circuit, to amend the language of Section 35(a). This Court should grant this petition in order to correct the court of appeals' incorrect interpretation of the Lanham Act.

B. The Second Circuit's Decision Is Also Contrary To The Legislative History Of Section 35(a).

Not only does the decision of the court of appeals ignore the plain language of Section 35(a), it is also contrary to that section's legislative history. Congress considered and rejected making proof of bad faith or willful infringement a prerequisite to a recovery of damages or profits for trademark infringement.

Although the Lanham Act was enacted in 1946, its legislative origins date to 1924 when Senator Richard Pretlow Ernst proposed a bill to replace the Trademark Act of 1905. *See* 7 Jerome Gilson, TRADEMARK PROTECTION AND PRACTICE pt. II, at II-1 (1999) (containing chronology of Lanham Act's legislative history). That bill provided:

> Any person who shall, in commerce, infringe any registered trade-mark, shall be liable—
>
> * * *
>
> (c) To pay to the owner all profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost or deduction claimed; **but there shall be no recovery of profits from any defendant whose adoption and use of an infringing trademark was in good faith and without knowledge of the plaintiff's right thereto, except such profits as accrued thereon after such defendant had actual notice or knowledge thereof.**

S. 2679, 68th Cong. § 18, at 21 (1924) (emphasis added). Six subsequent trademark bills, none of which were enacted, included similar language limiting an award of profits to cases of bad faith infringement. *See Stolte*, *supra*, at 295, n. 127 (listing six subsequent bills). The highlighted language was dropped in subsequent bills, *see* H.R. 9041, 75th Cong. § 34(a), at 15 (1938), and from the law that was enacted in 1946. *See* 15 U.S.C. § 1117(a). As this Court has held, "[f]ew principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded in favor of other language." *Immigration & Naturalization Serv. v. Cardoza-Fonseca*, 480 U.S. 421, 442-43 (1987). The fact that early drafts of what became the Lanham Act contained a willfulness element

and the statute as enacted did not is compelling proof that the Second Circuit's decision is contrary to Congressional intent.

It has been observed that

> trademark legislation and legislative history reveals that Congress sought to advance significant policies. Through trademark legislation, Congress attempted to protect not only the owner's property, but also the public reliance on the mark. In order to protect the mark, Congress set up a system which required: (1) a set of incentives for owners to police their marks; (2) compensation for the wronged owners; and (3) deterrence of future infringement without deterring useful and "good-faith" adoption.

Luciani, *supra*, at 73. The decision of the courts below accomplished none of these objectives. The Association, as owner of the "STAR CLASS" trademark, did not receive any compensation for the use of its property, instead it was required to expend substantial resources to protect its property. This result creates a disincentive for trademark owners to spend the effort and resources necessary to police their marks. Moreover, it has no deterrent effect for Hilfiger or other infringers because Hilfiger got off "scot-free."

The decision of the court of appeals to deny the Association an accounting of Hilfiger's profits is contrary to the intent of Congress as evidenced by the Lanham Act's legislative history. This Court should grant the writ and follow Congressional intent by awarding Hilfiger's profits to the Association.

C. The Rule Applied By The Court Of Appeals Is Based On A Misinterpretation Of This Court's Decision In *Champion Spark Plug Co. v. Sanders*.

Many of the decisions holding that proof of bad faith or willful infringement is necessary to obtain monetary relief under Section 35(a), especially the earlier ones, rely on this Court's decision in *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947). *See Stolte, supra*, at 282. The courts that rendered those decisions misread this Court's opinion.

Champion Spark Plug involved the use of the "Champion" trademark in connection with spark plugs actually manufactured by Champion that the defendant had reconditioned and resold as used spark plugs. 331 U.S. at 126. The sole question presented to this Court was the adequacy of the remedy fashioned by the court of appeals. *Id.* at 128. This Court noted that "[u]nder the Trade Mark Act of 1905, as under its predecessors, an accounting has been denied where an injunction will satisfy the equities of the case."[5] *Id.* at 131. This Court then noted that

> there has been no showing of fraud or palming off. For several years respondents apparently endeavored to comply with a cease and desist order of the Federal Trade Commission requiring them to place on the plugs and on the cartons a label revealing that the plugs were used or second-hand. Moreover, as stated by the Circuit Court of Appeals, the likelihood of damage to petitioner or profit to respondents due to any misrepresentation seems slight.

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[5] The 1905 Act provided, in pertinent part, "upon a decree being rendered in any such case for wrongful use of a trade-mark the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction." *Champion Spark Plug*, 331 U.S. at 131, n. 7 (quoting section 19, 15 U.S.C. § 99.)

Id. at 131-32. This Court then concluded that "[i]n view of these various circumstances it seems to us that the injunction will satisfy the equities of the case." *Id.* at 132.

The Second Circuit and the other courts of appeals that follow its lead have woodenly applied a strict requirement of bad faith. This Court's *Champion Spark Plug* decision does not support such a rigid approach. Rather, this Court held that the "equities of the case" dictate whether a monetary award is justified. The willfulness or bad faith of the infringer is but one factor in determining what the "equities" require in any given case.

This Court should grant the writ in order to clarify its decision in *Champion Spark Plug Co. v. Sanders.*

D. Principles Of Equity Dictate That Hilfiger Should Not Be Entitled To Retain The Economic Benefit Of Its Infringing Conduct.

The only limitation on an accounting of profits actually found in Section 35(a) is "principles of equity." In this case, equity was not served. Hilfiger was allowed to keep all of the money it received through its intentional copying of a 70-year old famous yachting trademark in an effort to sell clothes bearing "authentic details taken from the sport of competitive sailing." A permanent injunction was issued after all of the infringing merchandise was sold off. Moreover, because a temporary restraining order was not, and could not be, obtained by the trademark owner and it took the district court more than a year to issue a permanent injunction Hilfiger sold more than $1 million worth of infringing goods from its inventory after this litigation was commenced.

A Hilfiger designer admitted that while designing the infringing line of garments he examined books and other materials on competitive sailing which referred to the Star Class and Star yachts. (10a, n. 1; 74a.) Based on this and

other evidence, the district court found that Hilfiger intentionally copied that "STAR CLASS" trademark for its Spring 1994 collection. (24a-25a; 94a.) It marketed the garments as "classic nautical sportswear" with "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails." (10a; 74a.) It conducted an inadequate screening search and ignored its attorney's advice to conduct a full trademark search before using the mark. (10a.) Hilfiger proceeded to manufacture and sell over $3 million worth of infringing "Star ★ Class" garments. (24a.) Despite a cease and desist letter, the commencement of this action and a Thomson & Thomson report, all of which placed it on notice of the Association's trademark rights in "STAR CLASS", it continued to sell off the infringing merchandise. (24a.) The "principles of equity" were not served in this case by the granting of a permanent injunction after Hilfiger had sold off all of the infringing merchandise and pocketed $3.7 million.

Moreover, equity was not served because the economic result varied by virtue of the fact that a temporary restraining order did not issue and the ISCYRA's preliminary injunction motion was pending for a year before the district court decided it.

The Association did not seek a temporary restraining order for an obvious reason, it could not post the multi-million dollar injunction bond the district court was obliged to require. FED. R. CIV. P. 65(c) ("No restraining order or preliminary injunction shall issue except upon the giving of security by the applicant . . ."). Instead, the Association moved for a preliminary injunction and to consolidate the hearing on that motion with the full trial on the merits. (98a.)

The record is replete with references to the meager assets of the not-for-profit Association as compared to the successful, publicly-held Hilfiger. To restrain temporarily the

sale of over $3 million worth of in season, current garments, Hilfiger would obviously have demanded and been entitled to receive a bond in an amount far beyond the ability of the Association to post. This economic inequality gave Hilfiger the unobstructed opportunity to make a "bet" on the final outcome of this case. (29a (noting that Hilfiger's counsel admitted this "bet" during oral argument).) Hilfiger lost the bet when the district court found the ISCYRA's trademark to be both valid and infringed by Hilfiger's garments. (*See* 29a.)

This petition asks this Court to address what consequences, if any, befall Hilfiger for making and losing this bet? The ISCYRA contends that the consequence of Hilfiger losing the bet should be to place Hilfiger in **exactly the position** it would be in today if a temporary restraining order had been granted in April of 1994 or a permanent injunction in June of 1994—no better a position and no worse a position.

If a temporary restraining order had issued in April of 1994, by reason of the district court's permanent injunction and the fact that the infringing trademark cannot be removed from the garments without rendering them unmerchantable, Hilfiger would have on hand today and be required to destroy millions of dollars worth of infringing garments. By reason of its ability to make its bet, Hilfiger has on hand instead of worthless infringing goods, millions of dollars of cash representing the proceeds of its and its customers' sale of the infringing goods—cash that the district court's judgment permits it to keep.

By permitting Hilfiger to retain these proceeds, the decisions below strongly encourage future infringers and their counsel to seek as much delay as possible in order to "sell off" inventories of infringing goods so as to avoid the harsh economic consequence of having to destroy such goods. This is what happened in *Polo Fashions, Inc. v.*

Dick Bruhn, Inc., 793 F.2d 1132 (9th Cir. 1986). In that case, after the litigation was commenced the defendant sold off the infringing goods at cost, thus having no "profits" on the sales. *Id.* at 1134-35. The court of appeals held:

> The district court's remedy in this case did not remove all of Bruhn's economic incentive to buy and sell counterfeit Polo shirts. Bruhn was charged exactly the same penalty it would have been charged if it had behaved legally, that is, if it had destroyed the counterfeits. See Lanham Act § 36, 15 U.S.C. § 1118. Despite Bruhn's having acted unlawfully in selling the counterfeits, the district court's remedy left Bruhn $8,820 richer than it would have been had it acted lawfully. The mythic future infringer, well-versed in the precedents of this circuit and not unwilling to violate federal law, would ship the shirts just as Bruhn did. To remove this incentive, we hold that the recovery based on profits is inadequate. Bruhn must pay Polo the receipts from the [post litigation] sales of those shirts, $8,820; any lesser remedy would not remove the incentive for Bruhn to ship the shirts after discovering that they were counterfeit.

Id. at 1135.

The result in this case will not deter Hilfiger or the mythic future infringer from engaging in the same conduct because, in substance, Hilfiger won its "bet." This Court should grant the writ and remove the economic incentive from trademark infringement.

III

THE COURTS BELOW MISINTERPRETED THE LANHAM ACT WHEN THEY FAILED TO AWARD THE ASSOCIATION ITS REASONABLE ATTORNEY FEES.

Section 35(a) of the Lanham Act also provides that the "court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a). In this case, the district court and court of appeals denied ISCYRA's request for an award of its reasonable attorney fees. (96a.) Both courts relied on precedent of the Second Circuit that a finding of bad faith is necessary for an attorney fees award under Section 35(a). *See Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 194 (2d Cir. 1996). Once again, the plain language of Section 35(a) imposes no such requirement. *See* 15 U.S.C. § 1117(a).

Hilfiger, a multi-million dollar, publicly-held company, deliberately copied the Association's 70-year old mark and exercised a level of conscious disregard for the rights of the not-for-profit Association which clearly justifies an award of attorneys' fees. Fundamental public policy concerns argue strongly on the facts of this case that the Association should be awarded its reasonable attorney fees, both as an incentive for trademark owners to police their marks and as a detriment to would-be infringers.

The legislative history of the Lanham Act indicates that attorney fees are awarded in order to encourage trademark owners to enforce trademark rights. S. REP. NO. 93-1400, at 5 (1973), *reprinted in* 1974 U.S.C.C.A.N. 7132, 7136; M.G. Del Monte, Recent Development, Texas Pig Stands, Inc. v. Hard Rock Cafe International: *Willful Infringement Won't Always Bring Home the Bacon*, 67 TULANE L. REV. 569, 579 (1992). The question of what constitutes an "exceptional" case under Section 35(a) was discussed in

Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521 (D.C. Cir. 1985), a trademark infringement case where plaintiff was held to have unreasonably filed its action in the wrong district. After Noxell's action was dismissed because of its "unjustifiable" choice of venue, defendant Firehouse filed a request for attorneys fees. *Id.* at 523. The court, finding the case "exceptional", awarded attorneys' fees. *Id.* at 528. In reaching its decision, the court reasoned that plaintiff's action imposed an unreasonable hardship on defendant. *Id.* at 525-26. Plaintiff's corporation was a cosmetics conglomerate, while defendant was a full-time San Francisco firefighter. *Id.* at 523. The court of appeals held:

> we think it fair to assume that Congress did not intend rigidly to limit recovery of fees by a defendant to the rare case in which a court finds that the plaintiff "acted in bad faith, vexatiously, wantonly, or for oppressive reasons"; that exception to the "American rule," the Supreme Court has clarified, is always available unless Congress expressly forbids its operation. Something less than "bad faith," we believe, suffices to mark a case as "exceptional."

Id. at 526 (citations omitted).

Here, as in *Noxell*, a large corporate entity has treated with callous disregard the trademark rights, established over decades of investment of volunteer effort, of the incomparably smaller International Star Class Yacht Racing Association. Faced with the dilemma of losing control over its famous marks through inaction or of waging a battle in the courts against a Goliath infringer, the Association refused to relinquish its rights. This approach is the one Congress sought to encourage when it added the attorney fees provision to Section 35(a). On facts such as these and in light of conduct such as Hilfiger's, public policy and legislative intent combine to require an award of reasonable attorney fees.

Hilfiger's deliberate copying of "authentic details taken from the sport of competitive sailing," is sufficient to justify an award of attorney's fees. This conclusion is bolstered by the court's finding that the Association's marks are famous marks (23a), and by Hilfiger's woefully inadequate "screening search" which totally ignored the Lanham Act rights of owners of common law and state registered marks and trade names. (27a.) The district court found that the alleged copying of the "Star ★ Class" mark was an intentional act. (86a.) As a result of this deliberate use of the famous "STAR CLASS" mark, the Association filed suit in order to protect its rights in the mark. Consequently, the Association is entitled to recover its enforcement costs through an equitable award of reasonable attorney fees.

This Court should also grant the writ to clarify the law concerning "exceptional cases" under Section 35(a) of the Lanham Act.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

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June 30, 2000

Respectfully submitted,

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